

Questions on Build to Rent

Views on the current situation of BTR market and its influencers in 5 articles

The Affordability Question (3 of 5)

MORICON Consultants shares thoughts on the Build to Rent market in the UK over a series of 5 short articles. The topic was part of the IRPM Build to Rent Level 4 course assignment and reflects only the authors' opinion.

In this third article, Sebastian Moritz - Director of MORICON, will look at the definition of affordability, causes for the undersupply of units and how to create more affordable housing and highlights possible solutions.

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1. The Affordability Question

One of the pressing issues in housing is the rising number of tenants that experience economic and basic hardship due to issues such as below and the availability of affordable accommodation:

- Income is not sufficient to support decent accommodation
- Looming redundancies because of COVID-19¹
- Tenants on Universal Credit scheme experience pay-out delays²

“Affordable” accommodation is frequently synonymised with “inferior quality” or “housing estate”ⁱ and creates apprehension with tenants and developers alike – especially with section 106 planning requirements for affordable housing.

1.1. What are the causes for the undersupply?

In most cases the tenure-blind housing planning strategy of the borough, enforced via Section 106 requirements, will be the reason for the backward trend in provisioning of affordable units. A developer will adhere to the mandated requirements only to secure the scheme’s approval and together with their reluctance to mix tenancy typology within a scheme, will not allow for additional units.

The rigid application of the nationally described minimum space standards³ can deprive a development of valuable affordable accommodation that could ease local housing pressure, help developer margins and allow a more flexible approach.

An example of allowing flexibility is show-cased at the Addiscombe Grove site (Opitva & Pocket Living) near Croydon: the original specification called for 12% affordable housing, after a revision of the plans the new permission granted 100% of affordable housing!⁴

1.2. How to create affordable housing (“Additionality”)

Being very close to your Local Authority is paramount to influence planning in a positive way, a more flexible less policy driven partnership can yield extra units, as demonstrated in the following:

- in Crawley - at the ‘Platform_ Boulevard’ (see 1.2.1)
- forward thinking collaboration between Havering Council and Waters Residential⁵
- Addiscombe Grove scheme: the mix between shared ownership via Opitva and Pocket Living

Finally, there is the question of which system is better – affordable vs. discounted market rent (DMR)ⁱⁱ? Whilst the affordability is always integrated with housing strategies and to some

i According to the UK government the definition of affordable housing is as follows:

‘Affordable housing is social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.’

ii Discounted market rent (or DMR for short) is a new type of affordable housing for the rental market. It allows build-to-rent developers to offer affordable apartments to rent at a large discount to the market price. This means that rental developers can fulfil their obligation to provide affordable housing without having to build a separate block and hand it over to a housing

extent inflexible, it is a rather prescriptive way to get units built – by default, only the required number planned will be built, strictly following planning obligations...

The advantage of DMR to complement BTR is that it is tenure-blind, which supports social integration and allows the developer to manage the property seamlessly. Covenants would ensure a long rental period; allow for a “staircase” between rents - i.e. via periodic income assessment the tenant can move within the rental discount brackets or even initiate a rent review in special circumstances.⁶

This allows better and more flexible control over housing stock and targets as well incentivises investors as the flats can be released to the private sector again at full market rent once the covenant has expired.

1.3. Conclusion

To enable more lower income family’s access to quality accommodation the DMR program is worth pushing forward. Partnership with the Local Authority will alleviate the fear of not meeting “affordability targets” or to continuously stigmatise those tenants. It should result in the provision of good housing stock as fair prices targeting the local applicants thus helping to avoid uprooting families because of housing shortage.



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His residential experience covers senior management roles at [One Hyde Park Residences](#) (Mandarin Oriental Group), [Ten Trinity Residences](#) (now Four Seasons Hotels) and [Belgravia Gate](#), before founding MORICON Consultants. He consulted [Lodha Group UK](#) on their three London projects – Lincoln Square, No. 1 Grosvenor Square and Kensington Odeon with a combined sales value of £ 1.6B and provided strategic advice for the [Amaala](#) Project in Saudi Arabia, a new super-prime resort destination at the coast of the Red Sea.

Professionally educated in Switzerland, he holds an MBA from Henley Management College. Sebastian has Member status at IRPM and Assoc. RICS and achieved Level 4 BTR Accreditation from IRPM.
<http://www.moricon.net/about/>

1 <https://www.landlordtoday.co.uk/breaking-news/2020/6/sharp-rise-in-rental-arrears-as-300-000-tenants-fail-to-pay-on-time>

2 <https://www.independent.co.uk/news/uk/home-news/coronavirus-universal-credit-payment-delay-dwp-lockdown-a9459226.html>

3 Ministry of Housing, Communities & Local Government (MHCLG): Technical housing standards – nationally described space standard (March 2015)

4 <https://www.optivo.org.uk/Property-home/News-developments/addiscombe-grove-croydon.aspx>

5 <https://www.constructionenquirer.com/2020/06/10/plans-in-for-east-london-1380-home-estate-rebuild/>

6 https://www.arla.co.uk/media/1046326/london-first_build-to-rent.pdf

association. Instead, developers can focus on building one development with the same specification and quality throughout and then earmark certain apartments for the discounted market rent scheme.

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